

Supply management



KEY DEVELOPMENTS IN 2017

In 2017, Nornickel became Company of the Year in competitive procurement and won the Grand Prix at the Procurement Leaders Awards, with its project for an end-to-end transformation of the procurement function receiving the highest commendation from the expert community. Supply management is going to play the key role as the Company's 2020 Programme for Improving Performance and Reducing Per Unit Costs unfolds.

The Company's supply management units are tasked with ensuring timely, adequate and comprehensive supplies as required for uninterrupted operations, which means procurement on the best possible terms.

With its diverse businesses (from construction of Bystrinsky GOK to reconstruction of Norilsk Airport in the Far North) and geography of operations, the Company faces many challenges it has to address in terms of procurement.

The procurement plan covers 48 aggregated categories – from construction and installation services and equipment to food supplies. For purchases of general-purpose industrial machinery and equipment only, the Group has set up some 200 sub-categories.

The supplies are shipped along the Yenisey River and the Northern Sea Route using the Company's own fleet during the navigation season, as well as by air. There is no railway or motorway connection between the Taimyr Peninsula and mainland Russia, which makes delivery by land to the Norilsk Industrial District impossible.

Supply management operations include:

- requirements planning and supply management;
- procurement.

Requirements planning and supply management

Accurate planning and availability of stock are key to uninterrupted operations at Nornickel. At the same time, the Company needs to focus on optimising inventory, to minimise its working capital. Idle inventory, if any, is assessed based on production needs. Depending on the results, the Company decides whether it is going to be:

- used in production as and when needed;
- sold;
- written off and disposed of.

Overall, 2017 saw the Company implement a set of optimisation measures with respect to requirements planning and meeting the needs of its key productions sites. Changes in the structure of production assets had an impact on the volume and composition of the Company's inventory. At the same time, Polar Division and Kola MMC, the Company's major productions sites, decreased their inventory for core operations by 3.06% to an absolute level of USD 380 mln (RUB 22.2 bn), while also fully meeting the needs of their production, repair and other units.

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Despite an increase in production assets, the Group's inventory as per the RAS statements also dropped by 3.5% y-o-y to USD 701 mln (RUB 42.5 bn).

At the planning stage, the Company defines health, safety and environment, as well as other mandatory and optional product requirements, including availability of certificates, permits, and licenses. Further on, when procurement procedures are under way, suppliers' proposals are checked for compliance with the Company's requirements.

Procurement

All procurement activities in the Company rely on the regulated procedures and policies and are in full compliance with Federal Law No. 223-FZ On Procurement of Goods, Work and Services By Certain Types of Legal Entities dated 18 July 2011, as well as Business Ethics Code, Anti-Corruption Policy, Regulation on the Product Procurement Procedure, as amended in 2016, and other regulatory documents of the Company.

The Company develops procurement policies for select materials and supplies that establish binding principles and approaches to procurement in specific product groups. In 2017, the Company purchased ca. 33% of supplies for core operations based on category procurement policies (24% in 2016, 17% in 2015).

Procurement activities can be either centralised or organised independently by the Head Office, branches or Group enterprises. Depending on the expected purchase price, procurement can be organised either as a bidding procedure (tender), simple procurement, or simplified procurement.

Procurement procedures may involve collective procurement bodies, such as the tender committee, tender commissions of the Head Office, procurement and tender commissions of the branches and Group companies. In 2017, the tender committee and tender commissions of the Head Office that are in charge of the most expensive procurement items, full-cycle projects and IT products, carried out procurement for over USD 325 mln (RUB 19 bn). The Company's tender committee focuses on improving procedures for identifying reliable suppliers of quality products at a fair market value.

Nornickel provides support to tenders run by the Company's Russian subsidiaries and branches. In 2017, the Company oversaw tender procedures to purchase services for over USD 343 mln (RUB 20 bn).

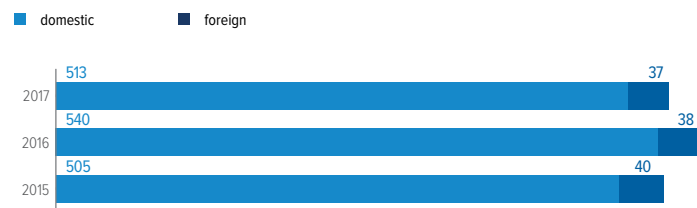
In 2017, the Company signed over 4,000 contracts for centralised procurement of materials and equipment worth around USD 1.6 bn, with a total price decrease of 5%, which is below the levels recorded by the Federal State Statistics Service.

At Nornickel, the procurement process is certified for compliance with ISO 9001 and ISO 14001.

In the reporting year efforts focused on developing and implementing procurement guidelines, and harmonising the regulatory procurement framework across Russian subsidiaries and branches, including services procurement, were continued.



Number of the Company's suppliers and contractors



Procurement automation and stronger competition

Nornickel has put in place SAP SRM, an automated solution for supplier relationship management. The Company also widely uses independent bidding platforms, such as Fabrikant.Ru or B2B-Centre. These solutions help improve the supplier selection transparency and competitive environment when procurement procedures are under way.

Nornickel pays close attention to fostering ties with reliable domestic suppliers and contractors. Foreign suppliers are mainly engaged for delivering unique equipment or systems that do not have Russian alternatives.

As at the end of 2017, domestic suppliers outnumbered foreign ones by 14 to 1.

Preventing corruption and other misconduct

Nornickel's Corporate Security Unit evaluates the business reputation, reliability and solvency of potential counterparties to mitigate risks.

To prevent potential procurement misconduct and secure maximum benefit through unbiased selection of the best proposal, Nornickel adheres to the following rules:

- procurement relies on the role allocation principle (procurement owner, customer and secretary of a collective procurement body);

- business or technical and business proposals of qualified suppliers are compared based on objective and measurable criteria approved prior to the request of proposals stage;
- the results of the qualification-based selection and the winner are approved by the collective procurement body comprising representatives from various functional units of the Company.

The purchases made by certain subsidiaries of Nornickel are subject to Federal Law No. 223-FZ On Procurement of Goods, Work and Services By Certain Types of Legal Entities dated 18 July 2011. As part of anti-corruption efforts undertaken by the Company, these subsidiaries must disclose additional details in the unified information system, including:

- annual volume the customer is required to procure from small and medium businesses; and
- the number and total price of contracts awarded to small and medium businesses.

-5%

total price decrease in the procurement of materials and equipment